

WARREN COUNTY SCHOOL DISTRICT
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

WARREN COUNTY SCHOOL DISTRICT
FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
and Members of the Board of Education
Warren County School District
Bowling Green, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Warren County School District (the "District") as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit

The management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 41 through 42, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Other Supplementary Information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the District. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Shelton & Associates, LLP
October 5, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Warren County Board of Education
Management's Discussion and Analysis
For the Fiscal year Ended June 30, 2005

The discussion and analysis of Warren County Public School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to review the school district's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Government issued in June 1999.

Financial Highlights

- In total, net assets increased \$8,330,965. Net assets of governmental activities increased by \$8,357,167, while net assets of business-type activity decreased by \$26,202. These variances are primarily the result of new building construction within the district, and an increase in local tax revenue.
- General revenues accounted for \$61,822,482 in revenue or 75 percent of all governmental revenues. Program specific revenues in the form of grants and contributions accounted for \$9,214,006 or 11.1% of total revenues of \$82,892,611.
- Total assets of governmental activities increased by \$14,356,380. Capital assets increased by \$4,349,378 due to construction projects while cash increased by \$9,420,060.
- The School District had \$74,535,444 in expenses related to governmental activities; only \$11,041,377, of these expenses were offset by program specific charges for services, grants, and contributions. General revenues (primarily local taxes and state SEEK allocations), were adequate to provide these programs.
- Construction continued during the year with additions completed at Warren East Middle School, Drakes Creek Middle School and Henry F. Moss Middle School. At the end of the fiscal year, construction was also continuing at Alvaton Elementary. Expenditures to date total \$1,979,590 which is the Construction in progress at the end of the year.

Warren County Board of Education
Management's Discussion and Analysis
For the Fiscal year Ended June 30, 2005

Using this Comprehensive Annual Financial Report (CAFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Warren County Public School district as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The **Statement of Net Assets and Statement of Activities** provide information about the activities of the whole school district, presenting both an aggregate view of the school district's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the school district's major funds with all other non-major funds presented in total in one column. The major funds for the Warren County Public Schools are the general fund, special revenue fund, capital projects fund and the occupational tax office fund.

Reporting the School District as a Whole

One of the most important questions asked about the school district is "how did we do financially during 2005?" The **Statement of Net Assets** and the **Statement of Activities**, which appear first in the school district's financial statements, report information on the school district as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received and paid.

These two statements report the school district's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the school district as a whole, the financial position of the school district has improved or diminished. However, the school district's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the school district's property tax base, current property tax laws in Kentucky restricting revenue growth, required educational programs, and other factors.

Warren County Board of Education
Management's Discussion and Analysis
For the Fiscal year Ended June 30, 2005

In the **Statement of Net Assets** and the **Statements of Activities**, the school district is divided into two distinct kinds of activities:

Government Activities-most of the school district's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and other activities.

Business-type Activities-these services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The school district's food service operation is reported as business activities.

Reporting the School District's Most Significant Funds

..... **Fund Financial Statements**

The analysis of the school district's major funds begins on page 15. Fund financial reports provide detailed information about the school district's major funds. The school district uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the school district's major funds.

Governmental Funds-most of the school district's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the school district's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds-proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match.

Warren County Board of Education
Management's Discussion and Analysis
For the Fiscal year Ended June 30, 2005

(Table 1)
Net Assets

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2004	2005	2004	2005	2004	2005
Assets						
Current and Other Assets	\$ 17,561,871	\$ 27,568,873	\$1,385,246	\$1,541,523	\$ 18,947,117	\$ 29,110,396
Capital Assets	<u>97,170,674</u>	<u>101,520,052</u>	<u>5,325,737</u>	<u>5,145,283</u>	<u>102,496,411</u>	<u>106,665,335</u>
Total Assets	<u>\$114,732,545</u>	<u>\$129,088,925</u>	<u>\$6,710,983</u>	<u>\$6,686,806</u>	<u>\$121,443,528</u>	<u>\$135,775,731</u>
Liabilities						
Long-Term Liabilities	\$ 54,256,033	\$ 59,594,593	\$ -	\$ -	\$ 53,153,029	\$ 59,594,593
Other Liabilities	<u>5,552,716</u>	<u>6,213,369</u>	<u>25,535</u>	<u>27,560</u>	<u>5,578,251</u>	<u>6,240,929</u>
Total Liabilities	<u>\$ 59,808,749</u>	<u>\$ 65,807,962</u>	<u>\$ 25,535</u>	<u>\$ 27,560</u>	<u>\$ 59,834,284</u>	<u>\$ 65,832,522</u>
Net Assets						
Invested in Capital Assets net of Debt	\$ 42,230,674	\$ 40,870,052	\$5,325,737	\$5,145,283	\$ 47,556,411	\$ 46,015,335
Restricted	7,107,744	16,232,308	-	-	7,107,744	16,232,308
Unrestricted(Deficit)	<u>5,585,378</u>	<u>6,178,603</u>	<u>1,359,711</u>	<u>1,513,963</u>	<u>6,945,089</u>	<u>7,692,566</u>
Total Net Assets	<u>\$ 54,923,796</u>	<u>\$ 63,280,963</u>	<u>\$6,685,448</u>	<u>\$6,659,246</u>	<u>\$ 61,609,244</u>	<u>\$ 69,940,209</u>

Total Assets increased \$14,332,203. Total Net Assets increased by \$8,330,965 due to increase in Unrestricted Fund Balance and Restricted Assets.

Warren County Board of Education
Management's Discussion and Analysis
For the Fiscal year Ended June 30, 2005

(Table 2)
Net Assets

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2004	2005	2004	2005	2004	2005
Program Revenues:						
Charges for Services	\$ 7,451	\$ 2,799	\$2,335,943	\$2,428,864	\$ 2,343,394	\$ 2,431,663
Operating Grants/Contribution	9,738,579	9,214,006	2,690,693	2,815,912	12,429,272	12,029,918
Capital Grants/Contribution	2,506,750	1,824,572	-	-	2,506,750	1,824,572
General Revenues:						
Taxes	25,331,851	26,910,222	-	-	25,331,851	26,910,222
State Aid-formula grants	30,721,290	34,152,398	-	-	30,721,290	34,152,398
Investment Earnings	221,227	589,094	8,290	23,969	229,517	613,063
Miscellaneous	157,760	170,768	-	-	157,760	170,768
State on Behalf Payments	8,918,301	9,902,311	-	269,188	8,918,301	10,171,499
Gain(Loss) on sale of equipment	148,311	115,330	(5,719)	(1,215)	142,592	114,085
Loss Compensation	48,060	11,111	-	-	48,060	11,111
Total Revenue and Transfers	<u>77,799,580</u>	<u>82,892,611</u>	<u>5,029,207</u>	<u>5,536,688</u>	<u>82,828,787</u>	<u>88,429,299</u>
Program Expenses						
Instruction	46,159,715	50,369,285	-	-	46,159,715	50,369,285
Support Services:						
Student	1,560,252	1,473,384	-	-	1,560,252	1,473,384
Instructional Staff	2,227,498	2,241,637	-	-	2,227,498	2,241,637
District Administration	663,411	685,676	-	-	663,411	685,676
School Administration	3,275,988	3,212,859	-	-	3,275,988	3,212,859
Business	691,028	716,990	-	-	691,028	716,990
Facility Operations/Maintenance	6,282,753	7,309,785	-	-	6,282,753	7,309,785
Student Transportation	4,699,613	5,087,928	-	-	4,699,613	5,087,928
Central Office	400,108	-	-	-	400,108	-
Non-Instructional	883,997	935,045	-	-	883,997	935,045
Day Care	-	-	101,383	96,483	101,383	96,483
Interest on Long-Term Debt	2,566,617	2,502,855	-	-	2,566,617	2,502,855
Depreciation-Unallocated	-	-	-	-	-	-
Food Service	-	-	4,715,463	5,466,407	4,715,463	5,466,407
Total Expense and Transfers	<u>69,410,980</u>	<u>74,535,444</u>	<u>4,816,846</u>	<u>5,562,890</u>	<u>74,227,826</u>	<u>80,098,334</u>
Increase or (Decrease) in Net Assets	<u>\$ 8,388,600</u>	<u>\$ 8,357,167</u>	<u>\$ 212,361</u>	<u>(\$ 26,202)</u>	<u>\$ 8,600,961</u>	<u>\$ 8,330,965</u>

Warren County Board of Education
Management's Discussion and Analysis
For the Fiscal year Ended June 30, 2005

Governmental Activities

Instruction comprises 67% of governmental program expenses. Support services expenses make up 30% of governmental expenses. The remaining unallocated expensed for interest accounts for the remaining 3% of the total governmental expense.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. The Total Cost of Services includes for 2005 State On-Behalf Payments in the amount of \$9,902,311.

(Table 3)

Governmental Activities

	<u>Total</u> <u>of</u> <u>Services</u> 2004	<u>Cost</u> <u>of</u> <u>Services</u> 2005	<u>Total</u> <u>of</u> <u>Services</u> 2004	<u>Cost</u> <u>of</u> <u>Services</u> 2005	<u>Net Cost of</u> <u>Services</u> 2004	<u>Net Cost of</u> <u>Services</u> 2005
Instruction	\$46,159,715	\$50,369,285	\$38,049,776	\$42,776,034		
Support Services	20,684,648	21,663,304	19,048,557	20,039,750		
Other	-	-	-	-		
Facilities acquisition/construction	-	-	(2,014,331)	(1,413,448)		
Interest on Long Term Debt	2,566,617	2,502,855	2,074,198	2,091,731		
Depreciation-Unallocated	-	-	-	-		
Total Expenses	<u>\$74,227,826</u>	<u>\$74,535,444</u>	<u>\$57,158,200</u>	<u>\$63,494,067</u>		

Business-Type Activities

The business-type activities are food service and day care. These programs had revenues of \$5,536,688 and expenses of \$5,562,890 for fiscal year 2005. Of the revenues, \$2,428,864 was charges for services, \$2,815,912 was from State and Federal grants, \$23,969 from investment earnings and Loss on Sale of equipments \$1,245. Business activities receive no support from tax revenues. The school district will continue to monitor the charges and costs of these activities. If it becomes necessary, the school district will increase the charges for these activities.

Warren County Board of Education
Management's Discussion and Analysis
For the Fiscal year Ended June 30, 2005

The School District's Funds

Information about the school district's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$92,415,205 and expenditures and other financing uses of \$84,058,038. Net changes in fund balances for the year was most significant in General Fund \$378,577 and Capital Projects of \$9,924,029.

The increase in General Fund was due to an increase in local tax revenue and state SEEK payments. The Capital Projects Fund increased due to the increased revenue from the additional construction growth tax revenue for the year and proceeds of capital bonds.

General Fund-Budget Highlights

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

A variance comparison is presented between the final budgeted amounts and the actual (GAAP Basis) amounts. For the General Fund revenues were budgeted at \$43,775,121 with actual amounts of \$57,002,467 and transfers from the Occupational Tax Office of \$5,300,000 for total revenue of \$62,302,467. Budgeted expenditures of \$52,781,726 compare with actual expenditures of \$61,815,201, a difference of \$9,033,475. The net increase in General Fund balance is \$378,577. The actual revenue and expense totals include on-behalf payments totaling \$9,902,311 that are not budgeted.

Warren County Board of Education
Management's Discussion and Analysis
For the Fiscal year Ended June 30, 2005

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005 the school district had \$102,496,411 invested in land, buildings, equipment and construction in progress, \$97,170,674 in governmental activities. Table 4 shows fiscal year 2005 balances compared to 2004.

(Table 4)
Capital Assets at June 30
(Net of Accumulated Depreciation)

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	2004	2005	2004	2005	2004	2005
Land	\$ 2,657,600	\$ 3,934,000	\$ -	\$ -	\$ 2,657,600	\$ 3,934,000
Buildings and Improvements	77,422,194	87,275,071	4,944,157	4,810,410	82,366,351	92,085,481
Technology	2,397,136	2,383,299	33,606	24,611	2,430,742	2,407,910
Vehicles	2,857,842	4,069,814	-	-	2,857,842	4,069,814
Equipment	1,253,708	1,878,278	347,974	310,262	1,601,682	2,188,540
Construction in Progress	<u>10,582,194</u>	<u>1,979,590</u>	<u>-</u>	<u>-</u>	<u>10,582,194</u>	<u>1,979,590</u>
<i>Total</i>	<u>\$97,170,674</u>	<u>\$101,520,052</u>	<u>\$5,325,737</u>	<u>\$5,145,283</u>	<u>\$102,496,411</u>	<u>\$106,665,335</u>

There was a large increase in buildings and improvements due to the additions at Drakes Creek, Moss Middle and Warren East Middle School being completed.

Warren County Board of Education
Management's Discussion and Analysis
For the Fiscal year Ended June 30, 2005

Debt

At June 30, 2005 the school district had \$60,650,000 in bonds outstanding, of this amount \$7,864,386 are to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$4,605,000 is due within one year.

At June 30, 2004 the school district had \$54,900,000 in bonds outstanding, of this amount \$9,277,834 were to be paid from KSFCC funding. The increase during the 2005 fiscal year is due to a \$9,800,000 bond to fund the replacement building for Alvaton Elementary.

District Challenges for the Future

Warren County Public School District's financial status has improved significantly during the last fiscal year. This improvement is the result of continued increases in both local and state funding.

The school district has experienced an annual growth in student enrollment of 100-400 students per year, for the last five years. The school district has prepared for an increase in enrollment by building new schools and renovating and adding to existing schools. These new facilities come with increased utility costs and additional personnel cost (both administrative and support staffs). These new buildings also have a cost for computers, library books, instructional materials, and other items that can only be paid from the General Fund. These costs along with the need to add additional buildings in the next few years will create more challenges for the school district.

The second factor facing our school district is that of adequate state funding. The Commonwealth of Kentucky adopted a budget for the biennium of 2004-2006, in April 2005. The state budget allocated funds to our district for a 3% salary increase for all employees for 2005-06 and for the first time allocated funds for the cost of limited English proficient students.

With careful planning and monitoring of our finances, Warren County Public Schools goal is to continue to provide a quality education for our students and a secure financial future for the school district.

Warren County Board of Education
Management's Discussion and Analysis
For the Fiscal year Ended June 30, 2005

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the school district's finances and to show the school district's accountability for the money it receives. If you have any questions about this report or need additional information contact Willie McElroy, Treasurer at Warren County Public Schools, 303 Lovers Lane, P.O. Box 51810, Bowling Green, KY 42102-6810 or email at wmcelroy@warren.k12.ky.us

DISTRICT-WIDE FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

PROPRIETARY FUND FINANCIAL STATEMENTS

FIDUCIARY FUNDS FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

WARREN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Warren County Board of Education (the “Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Warren County School District (the “District”). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*, as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Warren County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, and etc. The District is not involved in budgeting or managing these organizations, is not responsible for any debt of the organizations, and has no influence over the operation of the organizations.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Warren County School District Finance Corporation – The Warren County, Kentucky, Board of Education has established the Warren County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Warren County Board of Education also comprise the Corporation’s Board of Directors.

BASIS OF PRESENTATION

District-Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the District as a whole. They include all funds of the District except for the fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The District-Wide Financial Statements are prepared using the economic measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which Governmental Fund Financial Statements are prepared. Governmental Fund Financial Statements therefore include a reconciliation with brief explanations to better identify the relationship between the District-Wide Financial Statements and the statements for governmental funds.

The District-Wide Financial Statement of Activities presents a comparison between direct expense and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and charges paid by the recipient of the goods or services offered by the program. Revenues not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct identifies the extent to which each business segments or governmental function is self-financing or draws from the general revenues of the District.

In the District-Wide Financial Statement of Net Assets and Statement of Activities both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements, each of which is considered to be a separate set of self-balancing accounts which constitute its assets,

liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The Statement of Cash Flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The fiduciary funds are reported using the economic resources measurement focus.

Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred,

except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset use.

The funds of the financial reporting entity are described below:

I. Governmental Funds

Major Funds

- A. The General Fund is the primary operating fund of the District and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. Reservations have been placed on the fund balance for outstanding encumbrances, allocation to the schools' site based decision making councils and accrued sick leave (Note F).
- B. The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial assistance programs where unused balances are returned to the grantor at the close of specified project periods, as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. The Kentucky Department of Education has deemed this fund always be classified as a major fund.
- C. Capital Project Funds are used to account for financial resources restricted for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds). The District's Capital Project Fund includes:
 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.

3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

D. Occupational Tax Office Fund is used to account for the occupational license tax collected from salaries, wages, commissions, and other compensation earned by persons residing within the Warren County School District and the net profits of all businesses, occupations, and professions located in the Warren County School District from activities conducted within Warren County, Kentucky.

Nonmajor Funds

The Debt Service Fund accounts for the accumulation of financial resources for the payment of principal, interest, and related costs on the general long-term debt of the District, including the payment of interest on general obligation notes payable, as required by Kentucky law.

The Permanent Fund accounts for assets held by the District pursuant to a trust agreement. The principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

II. Proprietary Funds

Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods and services. The District's enterprise funds are the School Food Service Fund and the Day Care operated out of Greenwood High School. The School Food Service Fund is used to account for the financial transactions related to the food service operations of the District.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Funds

Agency Funds

Agency funds account for assets held by the District in a purely custodial capacity. The reporting entity includes two agency funds. Since agency funds are custodial in nature (i.e. assets equal liabilities), they do not involve the measurement of results of operations.

- A. The School Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

- B. The Bond Proceeds Trust Fund is used to account for the proceeds and issuance costs of bond issues. The balance in the account is restricted for debt service related expenditures.

Private-Purpose Trust Funds

The Private-Purpose Trust Funds can only be used to purchase textbooks for needy students and for the award of scholarships. These purchases are made from interest received from a fixed investment accounted for in the permanent fund.

BASIS OF ACCOUNTING

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

CASH AND CASH EQUIVALENTS

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

INVESTMENTS

Investments are carried at cost which approximates market value.

ACCOUNTS RECEIVABLE

Receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include federal and state funding and taxes. Amounts on the statements are net of allowance for doubtful accounts.

INVENTORIES

The only inventory maintained by the District consists of expendable supplies held for consumption and is accounted for in the Enterprise Fund. Inventory consists of donated and purchased food held for resale and are expensed when used. Purchased food is valued at cost and U.S. Government donated commodities value is determined by the U.S. Department of Agriculture.

CAPITAL ASSETS

District-Wide Financial Statements

In the District-Wide Financial Statements, capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. The District maintains a capitalization threshold of one thousand dollars with the exception of computers and technology equipment for which there is not threshold. The cost of normal maintenance and repairs that do not add value or materially extend an asset's life are expensed.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	50 years
Building Improvements	25 years
Technology Improvements	5 years
School Buses	10 years
Vehicles	5 years
Food Service Equipment	12 years
Audio-Visual Equipment	15 years
Other General Equipment	10 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as expenditures of the governmental fund. Capital assets used in proprietary fund operations are accounted for the same as in the District-Wide Financial Statements.

LONG-TERM DEBT

District-Wide Financial Statements

All long-term debt to be repaid from governmental resources is reported as liabilities in the District-Wide Financial Statements. The long-term debt consists primarily of capital lease obligations and compensated absences.

Fund Financial Statements

Long-term debt is not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenue and payment of principal and interest reported as expenditures. There are no long-term debt obligations recorded in the Proprietary Funds as these funds are not responsible for paying the debt.

COMPENSATED ABSENCES

The District's policies regarding sick leave permit employees to accumulate earned but unused sick leave.

The entire compensated absence liability is reported on the District-Wide Financial Statements. The current portion of this debt is estimated based on employees who have twenty-seven years of service as of June 30, 2005 and is calculated at thirty percent of their total accumulated sick leave.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. The noncurrent portion of the liability is not reported. No liability is accrued in the Proprietary Fund.

EQUITY CLASSIFICATIONS

District-Wide Financial Statements

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt – Consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, or laws or regulations, or 2) law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Proprietary Fund equity is classified the same as in the District-Wide Financial Statements.

ENCUMBRANCE ACCOUNTING

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements. Fund balances of the respective funds have been reserved for outstanding encumbrances at June 30, 2005.

REVENUES — EXCHANGE AND NON-EXCHANGE TRANSACTIONS

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is not recognized until there is an enforceable legal claim. This legal claim does not arise until the taxes become delinquent, which is the fiscal year after the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

DEFERRED REVENUE

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

In order to present the Special Revenue Fund on the accrual basis of accounting, and because the awards are not yet available as assets, cash awards received in advance for the 2005-2006 school year have been classified as deferred revenues. Likewise, all awards requested as a result of 2004-2005 expenditures have been classified as receivables. Revenues of the Special Revenue Fund are considered earned when reimbursable expenditures are made or obligations are incurred, and of an equal amount.

OPERATING AND NONOPERATING REVENUES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. Those revenues are primarily charges for meals provided by the various schools and for childcare services provided. Nonoperating revenues included grants, donations, and interest income.

PROPERTY TAXES

Property taxes collected are reported as revenues in the fund for which they were levied. Property taxes are based on property valuations on January 1.

The tax rate is generally agreed to by the Board in the following September, and contingent upon state approval, the tax will be due in November or December of the same year.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

BUDGETARY PRINCIPLES

The District's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when the obligation is incurred (GAAP).

INTERFUND RECEIVABLES AND PAYABLES

Each fund is a distinct fiscal and accounting entity, and thus interfund transactions are recorded in each fund affected by a transaction. During the year the General Fund receives and disburses funds that relate to other funds or activities, such as the School Food Service Fund, the School Activity Fund, SEEK Capital Outlay Fund, Debt Service Fund, Special Revenue Fund, and the School Construction Fund. Transfers are then made between the various funds to more properly reflect the nature of the transactions. At June 30, 2005, substantially all such transfers had been made and no significant interfund payables or receivables existed.

NOTE B – CASH AND INVESTMENTS

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to KRS 160.570 and 702 KAR 3:090. The depository bank deposits for safekeeping and trusts with the District's third party agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At June 30, 2005 the carrying amount of the District's total cash and cash equivalents was \$27,652,697. Of the total cash balance, \$300,000 was covered by Federal depository insurance, with the remainder covered by a collateral

agreement and collateral held by the pledging banks' trust departments in the District's name. (Government Funds \$25,427,901, Proprietary Funds \$1,310,279, Private-Purpose Trust \$906,113, and Agency Funds \$906,113)

Cash accounts of the School Construction Fund, Bond Proceeds Fund, and the Debt Service Fund are held in trust by local financial institutions with normally insignificant amounts in non-trust accounts.

Kentucky Revised Statutes authorize the District to invest in direct obligations of the United States government, obligations backed by the full faith and credit of the United States government, certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution provided that such investment is insured by the FDIC or guaranteed by the pledge of direct United States government obligations, bonds issued by the Commonwealth of Kentucky or one of its agencies and instrumentalities, securities issued by any state or local government of the United States rated in one of the three highest categories by a nationally recognized rating agency, certain mutual funds, commercial paper rated in the highest category by a nationally recognized rating agency, or bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency.

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Technology Fund (accounted for within the Special Revenue Fund), Special Revenue Fund, Debt Service Fund, Bond Proceeds Fund, School Construction Fund, School Food Service Fund, and School Activity Funds.

NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

Governmental Activities	Balance at 7/01/04	Additions	Disposals	Balance at 6/30/05
Land	\$ 2,657,600	\$ 1,276,400	\$ -	\$ 3,934,000
Infrastructure	1,358,477	-	-	1,358,477
Buildings	100,808,454	12,059,587		112,868,041
Technology Equipment	9,381,998	1,050,572	963,733	9,468,837
Vehicles	9,072,627	1,918,823	154,009	10,837,441
Other Machinery & Equipment	2,163,570	870,281	117,679	2,916,172
Construction Work in Process	10,582,195	-	8,602,605	1,979,590
Total at Historical Cost	136,024,921	<u>\$ 17,175,663</u>	<u>\$ 9,838,026</u>	143,362,558
Accumulated Depreciation	<u>(38,854,245)</u>			<u>(41,842,506)</u>
Governmental Activities Capital Assets, net	<u>\$ 97,170,676</u>			<u>\$ 101,520,052</u>

Business-Type Activities	Balance at 7/01/04	Additions	Disposals	Balance at 6/30/05
Buildings	\$ 6,874,796	\$ -	\$ -	\$ 6,874,796
Technology Equipment	109,725	9,650	5,100	114,275
Other Machinery & Equipment	2,102,391	64,180	20,300	2,146,271
Totals at Historical Cost	9,086,912	<u>\$ 73,830</u>	<u>\$ 25,400</u>	9,135,342
Accumulated Depreciation	<u>(3,761,175)</u>			<u>(3,990,059)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 5,325,737</u>			<u>\$ 5,145,283</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 3,102,161
Support Services:	
Student	8,081
Instructional staff	5,471
District administration	2,984
School administration	1,593
Business	23,717
Plant operations and maintenance	159,900
Student transportation	621,937
Central office	177
Non-instructional	<u>188,912</u>
Total Depreciation Expense	<u>\$ 4,114,933</u>

NOTE D – COMMITMENTS

School Construction and Related Bonds

In December 2004, the Board approved a bond issue to finance the construction of a new elementary school (Alvaton). This project has an estimated cost of \$12,000,000 with a balance of \$10,784,583 to be expended during the 2006 fiscal year. The balance paid to date is reflected as construction in progress on the Statement of Net Assets.

Energy Management Consulting Contract

The District has a contract with Energy Education, Incorporated beginning August 31, 2003 and continuing for forty-eight consecutive months for a fee of \$15,200 per month. The District also contracted to hire a full time energy educator and pay a \$35,000 annual salary plus travel and incidental expenses. The purpose of this contract is to provide the District with an energy management program to monitor energy consumption and costs and thereby reduce the District's energy consumption and utility expenditures. Energy Education, Incorporated guarantees the cost savings at the end of the first four years will exceed the total of the monthly fees previously paid by the District plus all other expenses incurred by the District to run this program.

If the District terminates the contract early for any reason, it is obligated for all outstanding fees and a termination fee of approximately \$146,000, \$109,000 or \$91,000 if termination occurs before or at the end of the second, third or fourth performance year, respectively.

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying District-Wide Financial Statements as lease obligations represents the District's future obligations to make lease payments relating to school building revenue bonds issued by the Warren County Fiscal court (the Fiscal Court) and the Warren County School District Finance Corporation (the Finance Corporation) on behalf of the District for purposes of school facility construction. These amounts are not reflected on the fund financial statements.

The General Fund, SEEK Capital Outlay Fund, and the FSPK Building Fund are obligated to make lease payments. The lease agreements provide, among other things, for rentals sufficient to satisfy debt service requirements on bonds issued by the Fiscal Court or the Finance Corporation to construct school facilities and the District with the option to purchase the property under lease at any time by retiring the bonds then outstanding. Upon completion of such payments, the leased premises should become the property of the District. The District must generally make sinking fund payments by the fifteenth day of the month prior to scheduled bond and interest payment dates. The District is also obligated to maintain adequate property insurance on the school facilities, and the school facilities have been pledged as security to the holders of the bonds.

The District has "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

Following is a schedule of obligations existing at June 30, 2005:

<u>Issue Date</u>	<u>Series</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
August 1, 1995	XXIII	3.50%-5.20%	August 1, 2008
December 1, 1995	XXIV	4.00%-5.125%	Dec. 1, 2015
June 1, 1996	XXV	5.10%-5.60%	June 1, 2016
February 1, 1998	XXVI	3.80%-4.50%	April 1, 2011
June 1, 1998	XXVII	3.95%-4.75%	June 1, 2018
February 1, 1999	XXVIII	4.00%-4.60%	February 1, 2019
April 1, 2000	XXIX	4.75%-5.50%	April 1, 2020
February 1, 2001	XXX	4.00%-4.75%	February 1, 2021
April 1, 2002	XXXI	2.125%-4.70%	April 1, 2022
June 1, 2003	XXXII	2.00%-3.75%	June 1, 2023
January 1, 2004	XXXIII	2.00%-3.35%	March 1, 2014
December 1, 2004	XXXIII	3.75%-4.00%	December 1, 2024

Following are aggregate obligations existing at June 30, 2005:

Year Ending <u>June 30,</u>	<u>Warren County School District</u>		<u>Kentucky School Facility Construction Commission</u>		Total Debt <u>Service</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2006	\$ 3,126,562	\$ 2,206,542	\$ 1,478,438	\$ 339,026	\$ 7,150,568
2007	3,234,814	2,091,838	1,550,186	266,414	7,143,252
2008	3,363,915	1,971,028	1,621,085	189,635	7,145,663
2009	3,493,896	1,847,046	1,051,104	125,932	6,517,978
2010	3,105,754	1,695,590	434,246	92,954	5,328,544
2011	3,232,069	1,589,956	447,931	75,290	5,345,246
2012	2,853,742	1,456,140	201,258	56,513	4,567,653
2013	2,881,729	1,337,369	203,271	48,837	4,471,206
2014	2,670,427	1,214,193	214,573	40,734	4,139,927
2015	3,228,977	1,090,778	111,023	31,966	4,462,744
2016	3,389,441	940,774	110,559	26,690	4,467,464
2017	2,795,005	802,772	94,995	21,778	3,714,550
2018	2,925,365	676,466	99,635	17,138	3,718,604
2019	3,075,448	542,387	104,552	12,220	3,734,607
2020	3,212,599	395,262	77,401	7,016	3,692,278
2021	1,848,669	240,903	31,331	3,014	2,123,917
2022	1,757,202	162,741	32,798	1,542	1,954,283
2023	1,230,000	89,325	-	-	1,319,325
2024	665,000	41,100	-	-	706,100
2025	695,000	13,900	-	-	708,900
	<u>\$ 52,785,614</u>	<u>\$ 20,406,110</u>	<u>\$ 7,864,386</u>	<u>\$ 1,356,699</u>	<u>\$ 82,412,809</u>

A summary of lease principal balances is as follows:

	Balance at <u>June 30, 2004</u>	<u>Issued</u>	<u>Retired</u>	Balance at <u>June 30, 2005</u>
District	\$ 45,662,166	\$ 9,800,000	\$ 2,676,552	\$ 52,785,614
Commission	<u>9,277,834</u>	<u>-</u>	<u>1,413,448</u>	<u>7,864,386</u>
	<u>\$ 54,940,000</u>	<u>\$ 9,800,000</u>	<u>\$ 4,090,000</u>	<u>\$ 60,650,000</u>

All assets acquired under capital leases are included in the District-Wide Financial Statements within "depreciated capital assets" and, accordingly, are depreciated. On the governmental fund financial statements, payments on capital lease obligations are recognized as expenditures.

NOTE F – ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, a certified employee will receive from the District 30% of the value of accumulated sick leave. At June 30, 2005, this amount totaled \$778,445 for those certified employees with twenty-seven or more years of experience and is reflected as a current liability on the District-Wide Financial Statements. Management has estimated that all of this amount will eventually become an expenditure of the District. Management has estimated that the long-term obligation will be approximately \$4 million.

In accordance with GASB Statement No. 34, the government fund financial statements reflect the current portion of sick leave payable of \$389,223. This is the amount anticipated to be funded with current year's economic financial resources.

NOTE G – RETIREMENT PLANS

KENTUCKY TEACHERS' RETIREMENT:

All certified employees are covered under the Teachers' Retirement System of the State of Kentucky (KTRS). KTRS, a cost-sharing, multiple-employer defined benefit plan provides retirement benefits based on an employee's final average salary and number of years service. Benefits are subject to certain reductions if the employees retire before reaching age fifty-five, unless the employee has twenty-seven or more years of participation in the plan. KTRS provides retirement benefits, as well as for death and disability benefits to plan members.

Funding for the plan is provided from eligible employees who contribute 9.855% of their salary through payroll deductions and by the Commonwealth of Kentucky through matching contributions at the rate of 13.105%. Contribution requirements of the plan members and the District are established by Kentucky Revised Statutes and the KTRS Board of Trustees.

The payroll for employees covered under KTRS was \$35,224,128. For the year ended June 30, 2005, the Commonwealth contributed \$4,296,665 to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the year ended June 30, 2005 were \$319,457 which represents those employees covered by federal programs.

The Kentucky Teachers' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3868.

COUNTY EMPLOYEES' RETIREMENT SYSTEM:

Classified employees (substantially all full-time Board employees other than certified employees) are covered by the County Employees' Retirement System (CERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. CERS provides for retirement, disability, and death benefits to plan members and beneficiaries. Cost of living adjustments are provided at the discretion of the State legislature. Under the provisions of the Kentucky Revised Statute Section 61.645, the Board of Trustees of Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

Plan members are required to contribute 5.00% of their annual salary through payroll deductions and the Board is required to contribute at an actuarially determined rate. The current rate is 7.34% of the employee's total covered compensation. The District's contributions to CERS for the year ended June 30, 2005 were \$969,077, equal to the required contribution for that year.

The County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

NOTE H – ON-BEHALF PAYMENTS

For the year ended June 30, 2005, the Commonwealth of Kentucky contributed estimated payments on-behalf of the District's employees of \$10,171,499 to the health insurance carriers and the flexible spending account vendors. GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, establishes accounting and reporting standards for on-behalf payments. In accordance with the standard, the District recognized an expense and revenue for this payment on the District-Wide Financial Statements.

NOTE I – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE J – INSURANCE AND RISK MANAGEMENT

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated including workers' compensation insurance. Premiums for these policies are based upon the District's experience to date.

The District is also exposed to various risks of loss related to torts, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage.

Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminates coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) will be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE K – RECONCILIATION OF FINANCIAL STATEMENTS TO ANNUAL FINANCIAL REPORT
FILED WITH THE KENTUCKY DEPARTMENT OF EDUCATION**

The District does not recognize the cash held in the Debt Service Fund for unrepresented bond and interest coupons, nor does the District recognize the debt service payments of the Commission as revenues and expenditures. Additionally, activities of the Expendable and Non-Expendable Trust Funds are not recognized in the District's Annual Financial Report filed with the Kentucky Department of Education. The corresponding amounts have been included in the district-wide financial statements in order for the statements to conform to generally accepted accounting principles

NOTE L – TRANSFER OF FUNDS

Interfund transfers are eliminated in the governmental and business-type activities columns of the district-wide statement of net assets. As reflected on the fund financial statements, the following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue	Technology Match	\$ 140,381
Occupational Tax Office	General Fund	Occupational License Tax	5,300,000
Capital Outlay	Construction Fund	Construction	1,016,947
Capital Outlay	Debt Service	Bond Payment	59,838
Building Fund	Debt Service	Bond Payment	<u>4,708,445</u>
Total transfers in			11,225,611
Permanent Fund	Private-purpose		
	Trust Fund	Interest Earnings	<u>98</u>
Total transfers out			<u>\$ 11,225,709</u>

NOTE M – SUBSEQUENT EVENTS

Bond Refinancing

On August 1, 2005, the District issued bond Series 2005 in the amount of \$15,120,000. The bonds are being used to fully refund the outstanding Series of 1995B and 1996 Bonds and partially refund the Series 2000 Bonds. The Kentucky School Facilities Construction Commission is participating in approximately 4% of the debt service on the Bonds. Interest is payable each June 1 and December 1, beginning December 1, 2005. Principal is payable on December 1, 2005 and each December 1 thereafter with the final payment due December 1, 2019. The interest rate ranges from 3% - 4%.

The savings from this refinancing is \$941,255 shown as follows:

<u>Series</u>	<u>Total Savings</u>	<u>Net Present Value Savings</u>
1995B	\$130,388	4.53%
1996	\$263,359	5.11%
2000	\$547,508	5.10%

Capital Asset Purchase

In August 2005, the Board approved the purchase of activity boards for primary through grades twelve. The estimated total cost of the purchase and installation is approximately four million dollars.

REQUIRED SUPPLEMENTARY INFORMATION

OTHER SUPPLEMENTARY INFORMATION

REPORTS REQUIRED BY THE SINGLE AUDIT ACT

WARREN COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2005

NOTE A — BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Warren County School District and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

NOTE B — FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities received and disbursed. At June 30, 2005, the District had donated food commodities valued at \$102,752 in inventory.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Kentucky State Committee For School District Audits
and Members of the Board of Education
Warren County School District
Bowling Green, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Warren County School District (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements* and *Appendix II to the Independent Auditor's Contract – State Audit Requirements*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Kentucky State Committee For School District Audits
and Members of the Board of Education
Warren County School District
Bowling Green, Kentucky
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of noncompliance with specific state statutes or regulations identified in Appendix II of the *Independent Auditor's Contract - State Audit Requirements*. However, the results of our tests disclosed instances of noncompliance in relation to the Kentucky Department of Education's *Accounting Procedures for Kentucky School Activity Funds* and are described in the accompanying management letter points.

This report is intended solely for the information of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Shelton & Associates, LLP
October 5, 2005

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133

State Committee For School District Audits
and Members of the Board of Education
Warren County School District
Bowling Green, Kentucky

Compliance

We have audited the compliance of the Warren County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Warren County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Warren County School District's management. Our responsibility is to express an opinion on the Warren County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Warren County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the Warren County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

State Committee For School District Audits
and Members of the Board of Education
Warren County School District
Bowling Green, Kentucky
Page Two

Internal Control Over Compliance

The management of the Warren County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Warren County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Shelton & Associates, LLP
October 5, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

WARREN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Warren County School District.
2. No reportable conditions were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Warren County School District, which would be required to be reported in accordance with *Government Auditing Standards*, were identified during the audit.
4. No reportable conditions were identified during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for the Warren County School District expresses an unqualified opinion on all major federal programs.
6. There were no audit findings relative to the major federal award programs for the Warren County School District.
7. The programs tested as major programs included:
 - a. Child Nutrition Cluster (CFDA 10.553, 10.555, 10.559)
 - b. Title I Grants (CFDA 84.010)
 - c. Carol M. White Physical Education Program (CFDA 84.215)
 - d. Twenty-First Century Community Learning Centers (CFDA 84.287)
8. The threshold for distinguishing Type A and Type B programs was \$300,000.
9. The Warren County School District qualified as a low-risk auditee.

FINDINGS-FINANCIAL STATEMENTS AUDIT

None

FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

MANAGEMENT LETTER POINTS

Kentucky State Committee for School District Audits
and Members of the Board of Education
Warren County Board of Education
Bowling Green, Kentucky

In planning and performing our audit of the financial statements of the Warren County School District for the year ended June 30, 2005, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance of the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Shelton & Associates, LLP
October 5, 2005

WARREN COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2005

Fiduciary Funds – School Activity Funds

I. Condition – During the audit, we noted that all schools did not comply with the segregation of duties requirements for handling receipts as required by the *Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book)

Criteria – *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) requires .the issuance of a receipt, recording the receipt in the computer system, and taking the deposit to the bank be performed by three separate individuals.

Cause – School employees were not properly trained and at some locations there are not the adequate number of personnel present.

Effect –Noncompliance with *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book).

Recommendation – Review this procedure and assess the available personnel at each school and adopt compensating controls if necessary.

Response – Management agrees with the finding and the recommendation will be adopted.

II. Condition – Money collected by teachers is not given to the treasurer on a daily basis in relation to fundraisers and book fairs.

Criteria – *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) states that funds are to be deposited on a daily basis. Amounts less than \$100 can be deposited weekly.

Cause – School employees were not aware they were in violation of the requirement.

Effect – Noncompliance with *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book).

Recommendation – Educate all school personnel about the policy and monitor that it is enforced.

Response – Management agrees with the finding and the recommendation will be adopted.

